

VZCZCXRO4797
RR RUEHFL RUEHKW RUEHLA RUEHROV RUEHSR
DE RUEHCH #0048/01 0170948
ZNY CCCCC ZZH
R 170948Z JAN 08
FM AMEMBASSY CHISINAU
TO RUEHC/SECSTATE WASHDC 6147
INFO RUEHZL/EUROPEAN POLITICAL COLLECTIVE

C O N F I D E N T I A L SECTION 01 OF 02 CHISINAU 000048

SIPDIS

SIPDIS

STATE FOR EUR/UMB

E.O. 12958: DECL: 01/16/2018
TAGS: [ECON](#) [PGOV](#) [PBTS](#) [PREL](#) [MD](#)
SUBJECT: TRANSNISTRIAN BUDGET AND RUSSIAN AID: POLITICAL
DIVISIONS GROW

REF: 07 CHISINAU 1275

Classified By: CDA Kelly Keiderling for reasons 1.4(b) and (d)

11. (C) SUMMARY: The gap between Transnistria's (TN) legislature (Supreme Soviet) and President Igor Smirnov widened further, as the Supreme Soviet reduced appropriations for the Executive in the 2008 budget. Speaker Yevgeny Shevchuk and his Obnovlenie (Renewal) party continue to ascend, enjoying high levels of popularity. Following Obnovlenie's declaration of support for the pro-Putin Yedinaya Rossiya (United Russia) party in the Russian parliamentary elections, Russia pledged 640 million rubles (about USD 27 million) in "humanitarian" assistance for TN. Russia announced this assistance would be managed directly by the Supreme Soviet, not the Executive. The assistance will help offset a projected budget deficit, supplementing social spending and leveraging further popular support for Obnovlenie. Transnistria's economy continues to suffer from the effects of the summer drought, which decimated most crops, and mounting inflation, which reached 27% at the end of 2007. END SUMMARY.

2008 BUDGET: SHEVCHUK VS. SMIRNOV

12. (SBU) On December 20, the Supreme Soviet adopted the 2008 TN budget law in the third reading, rejecting President Smirnov's request to increase appropriations for the presidential administration, the "ministries" of foreign affairs and internal affairs, and the TN customs service. On December 28, the budget law was sent to the TN President, who protested that the Supreme Soviet had exceeded its authority under the TN constitution. However, on December 30, Smirnov reluctantly signed the budget law, citing the "social" needs of TN, but vetoed several line items, including those that limited funding for the Executive. The budget law was published in its entirety on December 31 with asterisks noting the vetoed items. However, the Supreme Soviet, which Obnovlenie controls by a two-thirds majority, may override a Presidential veto. The Supreme Soviet has yet to take action on the law following the holiday recess.

RUSSIAN AID CUTS THE BUDGET GAP...

13. (C) The 2008 TN budget forecast includes revenues of Transnistrian ruble (TNR) 2,649 million (about USD 313 million) and expenditures of TNR 3,273 million (about USD 387 million), leaving a deficit of TNR 624 million (about USD 74 million). (NOTE: According to the TN Central Bank, one USD equals TNR 8.46 rubles. The TNR is not a convertible currency internationally, though local banks in TN freely exchange the TNR. END NOTE.) Major expenditures include law enforcement and defense, health care, education, and social spending, which includes state salaries and pensions.

Transnistria will also have higher energy costs in 2008, having agreed to pay USD 192 per thousand cubic meters for Russian natural gas. Russian financial assistance, which will help offset the budget deficit, will be distributed directly by the Supreme Soviet and Speaker Shevchuk. According to local media reports, USD 5 million has been set aside to supplement pensions (an increase of TNR 85 per month) for TN's estimated 150,000 pensioners. The Supreme Soviet has also pledged to pay salary arrears for public sector workers for 2007.

...BOOSTS SHEVCHUK'S STANDING

14. (C) Already distancing himself from Smirnov, Shevcuk is riding the political capital wave of financial assistance from Russia. His increasing popularity is reflected in a recent TN public opinion poll, in which, according to local media reports, almost half of the respondents said they would vote for Obnovlenie, placing the party well ahead of Smirnov's. Obnovlenie continues to deliver popular measures, such as voting down Smirnov's proposal requiring invitations for foreigners wishing to visit TN. With bread prices increasing 15-25% since January 1 and energy costs rising, Shevchuk's efforts to direct financial assistance to the people, and not Smirnov's personal coffers, will resonate well with the people of TN.

COMMENT

15. (C) Transnistria's economy has suffered since Russia cut financial support and the Supreme Soviet was forced to cut government social spending in April 2007. Revenue and

CHISINAU 00000048 002 OF 002

expenditure forecasts for 2008 are up considerably compared with 2007 - likely a product of increased exports as a result of Moldova's efforts to facilitate legal TN trade over the past year. Shevchuk's pro-business orientation speaks to Transnistria's economic needs; though, as we've noted before, we are under no illusions about Shevchuk. He does appear to be the lesser of two evils; open to dialogue and pro-business. He has delivered what Smirnov could not - Russian financial assistance. Although the domestic political divide between Shevchuk and Smirnov has widened, Obnovlenie's agreement with United Russia means that Shevchuk is beholden (even more) to the Kremlin.

KEIDERLING